

# Balance of payments: meaning and components

[Economics](#), [Macroeconomics](#)



Balance of Payments: Meaning and Components The Balance of payments of a country is a systematic record of all economic transactions taking place between the country and other countries over a given period of time. It includes both exports and import of goods as well as services. Many confuse Balance of Payments (BoP) with Balance of Trade (BoT). However, BoT only takes into account the transactions arising from imports and export of goods. Transactions recorded in BoP account can be classified in 5 major categories. (1)Goods and services a/c (2)Unilateral transfers a/c (3)Long term capital a/c (4)Short term capital a/c (5)Short term official capital a/c There are 2 major categories of accounts in the BoP a/c statement i. e Current a/c and Capital a/c. The items which don't fall under any of these categories constitute "other items" in the BoP. Current a/c shows the balance of exports and imports of goods and services and Unilateral transfers (receipts or payments for which they get nothing in return, eg. Foreign aid, Gifts etc.) Capital a/c shows private transactions (transactions affecting assets and liabilities by individuals, businesses and non government entities), Official transactions(transactions affecting assets and liabilities by government and agencies), Direct investment(purchase of an asset and acquiring control of it other than the ability to resell it) and Portfolio investments(acquiring the asset and not the control over it). The items which do not fall under the above two are errors and omissions (which include sampling of transactions, dishonesty, smuggling etc.)And Official reserve transactions which can be again divided into non-autonomous and autonomous transactions. on autonomous transactions are those carried out by government and the central banks for some international economic policy objective and

Autonomous transactions are those which are entered into with some independent motive. There are various factors which cause disequilibrium in Bop. These include Large scale developmental expenditure causing imports, recession or depression, political instability and change in tastes and